

Briefs

Livestock, Dairy, & Poultry**Broiler Prospects Shaped by Financial Crises Abroad, Lower Feed Costs**

Economic crises in Asia and, more recently, in Russia, have combined to depress U.S. poultry export projections for 1998 and 1999. Most of the decrease has come in broiler exports—the 1998 broiler export estimate has been lowered to 4.5 billion pounds, and the forecast for 1999 has been reduced to 4.3 billion. These would be the first decreases in broiler exports since 1984.

In September 1998, a dramatic downturn occurred in broiler exports to Poland, the Baltic States—Latvia, Lithuania, and Estonia—and Russia and the other New Independent States (NIS) of the former Soviet Union. Broiler shipments to these countries accounted for 52 percent of all U.S. broiler exports.

Over the first 9 months of 1998, shipments to these countries had reached 1.9 billion pounds, about even with the same period in 1997. While direct sales to Russia were down 13 percent (190 million pounds), sales to Estonia, Latvia, and Poland increased almost 50 percent to 450 million pounds. U.S. broiler exports to these countries are largely transshipped to Russia and other NIS countries, following traditional transportation and distribution patterns. Exports to Poland through September totaled 138 million pounds, even though Poland has set an annual quota on broiler imports of only 80 million pounds. Direct shipments to NIS countries other than Russia increased 250 percent from the previous year in the first 9 months of 1998.

After averaging 216 million pounds a month over the first 8 months of 1998, broiler exports to the Baltic States and Russia and other NIS countries plunged to 27 million as the devaluation of the ruble raised domestic prices and lowered consumer incomes. Exports to Russia and surrounding countries are expected to begin gradually increasing in 1999 as the ruble's exchange rate stabilizes and economic recovery plans are put in place, but

exports for the year are expected to be significantly lower than in 1998.

The Asian economic crisis, in contrast, has not depressed broiler exports, although it has had negative effects on shipments of other U.S. poultry exports. The crisis began in Korea, Thailand, Malaysia, Indonesia, and Singapore, but quickly affected the economies of Hong Kong and Japan. Among the earliest affected countries, Singapore and Korea are significant markets for U.S. poultry products, and Thailand is a major broiler producer and U.S. competitor. The decline of Thailand's baht against the dollar has made its broiler exports more competitive with the U.S. in Hong Kong/China and Japan, helping to bring U.S. broiler product prices down in these markets. Hong Kong is a major market for poultry products, and it also serves as the chief port for poultry products destined for China. Hong Kong/China and Japan are the primary Asian markets for U.S. broiler prod-

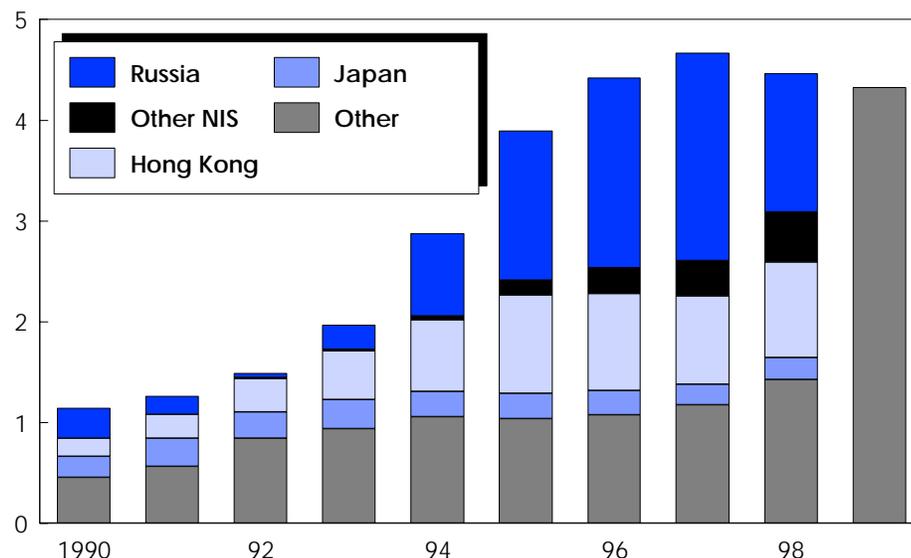
ucts, accounting for 26 percent of all exports in 1997.

At the beginning of 1998, U.S. broiler exports to Hong Kong/China fell significantly as consumers avoided all chicken products following a scare that Avian influenza might be able to pass from poultry to humans. By early spring, however, exports of broilers to Hong Kong/China rebounded to levels above the previous year, and through September were 2 percent above the same period in 1997. Exports of broiler products to Japan have also risen, but exports of U.S. turkey products, eggs, and other chicken products, pressured by lower broiler product prices, have fallen considerably in 1998. Japanese consumers are likely substituting lower valued U.S. broiler products for higher priced broiler products from other sources, as well as for higher priced poultry products from the U.S.

Domestically, U.S. broiler producers are encountering higher prices and lower feed costs than a year earlier. Broiler production is expected to increase about 5 percent in 1999 as increased producer profitability makes production increases more attainable and attractive. Producer

U.S. Broiler Exports To Decline From Recent Records

Billion lbs.



Individual country data not available for 1999. 1998 preliminary; 1999 forecast.
NIS = New independent States of the former Soviet Union.

Economic Research Service, USDA

net returns were near record levels this summer as wholesale meat prices have been up and feed costs have been about 20 percent below a year earlier. Because the export market impact has been on dark meat, which represents only 25-35 percent of the value of a broiler, the strength of the domestic market has offset potential negative effects on profitability.

Broiler production had increased only fractionally in the second and third quarters of 1998 relative to a year earlier, as hatchery supply flock problems and low profitability in late 1997 limited increases in bird numbers and as hot weather slowed growth rates in some leading southern production areas. In response to high net returns over the summer, however, pullet hatch for potential placement in the hatchery supply flock in September

was 19 percent higher than a year earlier. Egg sets in incubators for broiler production were up between 4 and 5 percent in mid-November for the 15 states surveyed. And stronger increases in broiler-type chick hatch in the fall indicate production should increase more vigorously in 1999.

Prices for whole birds set a record-high average for 1998. Prices for whole birds are expected to continue stronger than a year earlier into early 1999, but for most of the year should be slightly weaker than a year earlier as production increases accelerate. Prices for whole birds in 1999 are not expected to match the record-high levels of August 1998.

Stronger prices for skinless, boneless breast meat and wings, up about 10 per-

cent and 20 percent from year-earlier levels since May, reflect strength in the fast-food market. Leg quarter prices dropped significantly when the Russian market collapsed, peaking at over 38 cents a pound on the northeast wholesale market in mid-August and hitting a low of 17 cents in December. Plentiful pork supplies are also competing with low-priced poultry products in the export market. Recovery of price levels for leg quarters in 1999 depends on whether sales to Russia and Asia increase and supplies of competing beef and pork decline.

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Specialty Crops

Green Industry Cash Receipts Growing Despite Import Competition

The U.S. “green” industry—producers of indoor and outdoor flowers and plants—has enjoyed rising cash receipts for more than a decade despite a steady loss of domestic market share to foreign growers (AO July 1997). In 1998, consumer confidence in a robust economy, along with relatively high disposable income and low unemployment, helped push floral and plant product purchases to record levels. Similarly, low interest rates have spurred new housing and business starts, helping fuel demand for landscaping products and services.

The green industry—or nursery and greenhouse sector—has two major subsectors: floriculture (cut flowers, cut cultivated greens, and potted flowering and foliage plants), and environmental horticulture (trees and shrubs, bedding and garden plants, and turfgrass). Environmental horticulture dominates green industry sales, accounting for four-fifths of growers’ cash receipts.

Retail expenditures for nursery and greenhouse products reached \$54.6 billion in 1998, up \$2.9 billion (5.5 percent) from 1997. Environmental horticulture products generated \$38 billion in retail sales (\$141 per capita) while floriculture product sales totaled \$16 billion (\$61 per capita).

Overall, 91.5 percent of domestic sales of nursery and greenhouse products in 1998 was accounted for by U.S.-grown products. Foreign competition is felt most keenly in floriculture, where U.S. share of 1998 domestic sales fell to 72.8 percent (down 1.3 percent from 1997). Of the \$1.1 billion in floral and nursery products imported in 1998, cut flowers alone accounted for 60 percent.

In contrast, U.S.-grown environmental horticulture products accounted for 97.3 percent of the U.S. retail sales market, holding at the previous year’s level. Since these products generated 80 percent of green industry grower cash receipts, the projected 5-percent rise in spending for

outdoor plant products in 1999 bodes well for the green industry sector.

Grower cash receipts increased 5 percent to \$12 billion in 1998 compared with \$11.4 billion in 1997. The green industry’s high-value-product sales accounted for more than one-tenth of 1998 total U.S. crop cash receipts. Cash receipts in most floriculture and environmental horticulture product categories are increasing annually at 4-5 percent, and bedding and garden plants have been experiencing even faster growth.

Bedding and garden plants subsector leads green industry growth. Bedding and garden plant cash receipts jumped 8 percent in 1998. A similar increase is expected in 1999. These outdoor products—flowering, nonflowering, and vegetable plants—are generally “annuals” rather than “perennials,” and may be sold in flats, pots, or hanging baskets. Flower-

For more data and analysis, visit the **Floriculture and Environmental Horticulture Briefing Room** www.econ.ag.gov/briefing/floral/ Look for the October 1997 ERS report “Floriculture and Environmental Horticulture” (Next report available October 1999)

Briefs

Growers Receipts Rise as Sales of U.S. Greenhouse/Nursery Products Expand

	Production and trade			Retail expenditures ¹		
	Grower cash receipts	Imports	Exports	Total	Per capita	Domestic share
	—\$ million—				Dollars	Percent
Floriculture indoor products ²						
1996	2,215.7	692.7	106.0	14,911.2	56.21	75.3
1997	2,268.0	753.9	106.8	15,572.6	58.12	74.1
1998	2,345.1	830.0	124.0	16,411.4	60.64	72.8
Environmental horticulture ³						
1996	8,660.0	257.5	119.4	34,534.0	130.18	97.1
1997	9,125.3	248.6	130.0	36,167.5	134.99	97.3
1998	9,654.9	260.0	140.0	38,185.0	141.10	97.3
Total nursery and greenhouse products						
1996	10,875.8	950.2	225.4	49,445.2	186.39	91.8
1997	11,393.3	1,002.6	236.8	51,740.1	193.11	91.8
1998	12,000.0	1,090.0	264.0	54,596.4	201.75	91.5

¹Includes services such as landscaping, installation, and maintenance. ²Includes cut flowers, cut greens, and potted plants. ³Includes bedding plants, nursery stock, turfgrass, bulbs, and groundcovers.

Source: Economic Research Service, USDA

ing annuals, used by homeowners and businesses to provide instant seasonal color, are often discarded and replaced when their decorative value diminishes.

Bedding plant supply is usually timed for spring and fall marketing, because a spring-summer, fall-winter rotation is common in the U.S. For example, popular flowering bedding plants such as impatiens, geraniums, petunias, and New

Guinea impatiens may be purchased by homeowners and landscapers for the spring-summer season, to be replaced by pansies, garden mums, and flowering kale for the fall-winter cycle.

The relatively fast growth of domestic grower receipts for bedding and garden plants has occurred partly because these products have little or no import competition. Imports are generally restricted for

phytosanitary reasons, and international shipments of plants in growing media is costly and complex.

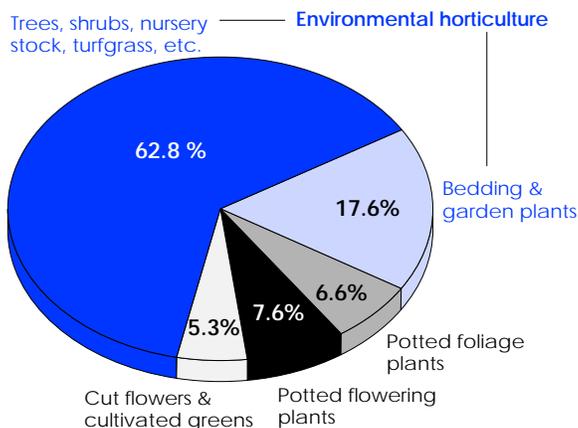
Expenditures for environmental horticulture products other than bedding and garden plants increased 5 percent in 1998 to about \$32 billion (\$118 per capita). Grower cash receipts are projected to rise to \$7.5 billion in 1999 for products in this category, which includes trees, shrubs, bulbs, ground covers, turfgrass, nursery stock for commercial fruit and vegetable production and home plantings, and seedlings for Christmas tree plantations, wildlife, and conservation purposes.

Cut flower and cut green subsectors are still struggling with imports. In 1998, U.S. growers scaled back the area planted to production of cut flowers and cut cultivated greens because of competition from imports. The U.S. share of domestic retail sales dropped to 45 percent, and USDA projects further production cutbacks by U.S. growers in 1999. Nevertheless, grower sales of U.S.-produced cut flowers and cut greens were up 4 percent in 1998, reaching \$639 million.

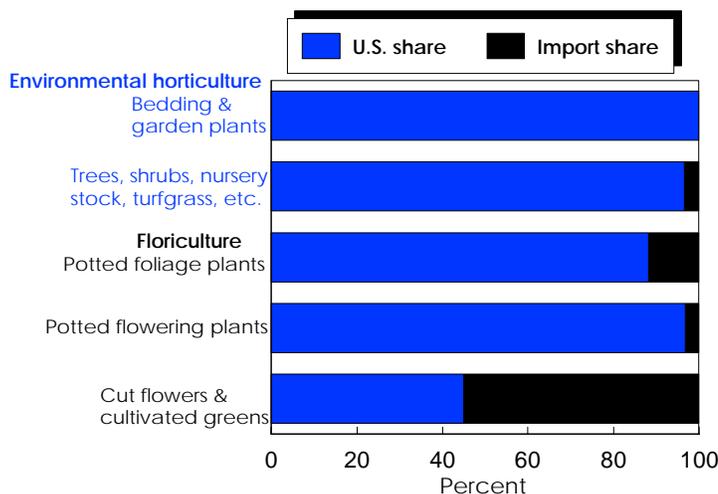
Despite modest gains in grower cash receipts in 1998, grower sales of the major cut flowers, including roses, carnations, chrysanthemums, and gladioli, were lower.

Environmental Horticulture Brings in Largest Share Of U.S. Growers' Cash Receipts . . .

. . . and Faces Least Competition from Imports



1998 grower cash receipts: \$12 billion



1998 retail sales: \$54.6 million

1998 projected.
Economic Research Service, USDA

Domestic production of the major cut flower varieties continues on a downward track, while production of specialty cut flowers (such as snapdragons, baby's breath, statice, gerbera daisies, sunflowers, and asters, many of which are field-grown rather than greenhouse-grown), continues to increase. Cut flower imports totaled \$650 million (import value) in 1998, accounting for at least two-thirds of the volume of U.S. cut flower sales. This represents an increase of 9 percent over 1997.

Domestic production of cut cultivated greens fell in 1997, but rebounded in 1998 to about \$130 million in growers cash receipts, up 9 percent but still below 1996. At the same time, imported quantities continue to increase and now account for about one-third of U.S. sales. Imports of cut greens were valued at \$50 million in 1998, up 5 percent from 1997.

Potted foliage and flowering plant sales are up. Grower sales of potted flowering and foliage plants for indoor use totaled \$1.7 billion in 1998, up 3 percent from 1997. Increased consumer and business demand for indoor plants stems from their aesthetic value as well as their ability to absorb indoor air pollutants.

Potted flowering plants accounted for about 55 percent of potted plant cash receipts and potted foliage plants for the remaining 45 percent. Sales of potted plants are expected to trend upward again in 1999, with flowering and foliage varieties making similar gains.

The most popular varieties of flowering plants include potted poinsettias, African violets, florist azaleas and chrysanthemums, cyclamens, kalanchoes, hydrangeas, orchids, and lilies. Recently,

foliage plant sales have increased and are expected to continue strong. Dieffenbachia, schefflera, ficus, spathiphyllum, bromeliads, and philodendrons are among the most popular foliage plants.

As with bedding and garden plants, import competition for potted plants is limited by U.S. phytosanitary regulations. In order to lessen the risk of introducing foreign plant diseases or insects, importation of plants with roots in soil or other growing media is strictly controlled. As a result, most imports are cuttings or propagative materials used by growers to start new plants.

Industry sales will likely continue to grow. Despite increasing competition from imports, cash receipts for green industry producers have been gaining an average \$500 million per year. In nominal terms, producer prices for most flower and plant crops have been fairly stable; volume increases have pushed grower sales upward in almost all categories.

With demand for floral and nursery-related products linked to the health of the general economy, economic growth generally leads to higher retail sales in the nursery and greenhouse sector. In fact, green industry sales are projected to grow at twice the rate of the general economy in 1999.

Strong demand from consumers, businesses, and institutions for flowers, plants, and landscaping greenery is expected to continue, pushing U.S. retail sales to \$57 billion in 1999—\$40 billion for environmental horticulture and \$17 billion for floriculture. Even if U.S. producers capture a smaller share of that domestic market, it will still translate into increased

income. Green industry growers' cash receipts are projected to reach \$12.5 billion in 1999.

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Upcoming Reports—USDA's Economic Research Service

The following reports will be issued electronically on dates and at times (ET) indicated.

January

- 12 *World Agricultural Supply and Demand Estimates* (8:30 am)
- 13 *Oil Crops Outlook* (4 p.m.)**
Rice Outlook (4 p.m.)**
- 14 *Feed Outlook* (9 a.m.)**
Wheat Outlook (9 a.m.)**
- 25 *U.S. Agricultural Trade Update* (3 p.m.)
- 26 *Livestock, Dairy, and Poultry* (4 p.m.)

February

- 10 *World Agricultural Supply and Demand Estimates* (8:30 a.m.)
- 11 *Cotton and Wool Outlook* (4 p.m.)**
Oil Crops Outlook (4 p.m.)**
Rice Outlook (4 p.m.)**
- 12 *Feed Outlook* (9 a.m.)**
Wheat Outlook (9 a.m.)**
- 19 *Agricultural Outlook**
- 22 *Outlook for U.S. Agricultural Trade**
- 24 *Livestock, Dairy, and Poultry* (4 p.m.)
- 26 *Agricultural Income and Finance**
U.S. Agricultural Trade Update (3 p.m.)

* Release of summary, 3 p.m.

** Available electronically only

Briefs

Farm Structure

More Farmers Contracting To Manage Risk

Almost a third of crops and livestock produced by American farmers was grown or sold under contract in 1997, according to USDA's Agricultural Resource Management Study (ARMS). Departing from a tradition of independent farm operators who have complete control over production and marketing decisions, contracting is a growing trend in American agriculture (AO May 1997). Today, more than 1 in 10 farm operators report income from contractual arrangements.

Contracting offers farm operators the advantages of reducing risks of price swings, sharing production costs, and stabilizing income. For contractors (primarily processors and packers), these arrangements assure a ready supply of uniform, high-quality farm products and ease inventory management problems.

Contracts—either written or oral agreements—will generally spell out the parties' understanding of how a commodity is to be produced and/or marketed, including specifications for quantity, quality, and price. Marketing contracts are commonly used for crops, while production contracts are more prevalent in the livestock industry.

Under a *marketing contract*, a price (or pricing mechanism) is established for a commodity before harvest or before the commodity is ready for marketing. Most management decisions remain with the grower, who retains ownership of both production inputs and output until delivery. With a marketing contract, the farmer assumes all risks of production but shares price risk with the contractor.

A *production contract* details who supplies the necessary production inputs—the contractor or the farmer (contractee)—as well as the quality and quantity of a particular commodity and the compensation due the farmer for services rendered. Under livestock production contracts, the farmer is paid to provide housing and care

for the animals until they are ready for market, but the contractor actually owns the animals.

Although cash markets still dominate the agricultural sector, nearly \$60 billion (31.2 percent) of total production was covered by contracts. Commodities produced under marketing contracts accounted for 21.7 percent of the total U.S. value of production, while those under production contracts accounted for 9.5 percent. In 1997, 9 percent of farmers sold at least part of their output through marketing contracts, and 2.2 percent had some income from production contracts.

Between 1991 and 1997, the share of commodities produced under marketing contracts increased from 16 percent to 22 percent of total U.S. value of production. The production contract share of the total has varied between 10 and 15 percent, with no clear trend.

Topping the list of crops produced under marketing contracts were fruits and vegetables, with \$11 billion sold through

contract, 40 percent of the value of all fruits and vegetables produced. Other crops with large shares of production value under marketing contracts were cotton (\$1.9 billion, or 33 percent); corn (\$1.7 billion, or 8 percent); soybeans (\$1.7 billion, or 9.4 percent); and sugar beets (\$973 million, or 82 percent). Just under 10 percent of the value of cattle production was sold under marketing contracts, compared with more than 60 percent of the value of dairy products.

Production contracts are more likely to be used for livestock. Poultry and poultry products accounted for over 50 percent of the total value of commodities under production contracts, and cattle and hogs another 41 percent. Within the poultry category, 70 percent of the commodity value of production was produced under production contracts. In contrast, 33 percent of the value of production of hogs and 14 percent of cattle were covered by production contracts.

While farms of all types and sizes engage in contracting, two-thirds of farms with contracts (marketing and/or production) in 1997 were small family farms (sales under \$250,000). However, larger family farms (sales \$250,000 and over) and non-family farms accounted for more than three-fourths of the value of products grown and sold under contract.

Typology of U.S. Farms

Small family farms

Limited-resource: Operator household income under \$20,000, farm assets under \$150,000, and gross farm sales under \$100,000

Retirement: Operator's primary occupation is retired

Residential/lifestyle: Operator's primary occupation is "other"—neither farming nor retired

Farming/lower sales: Operator's primary occupation is farming and gross farm sales under \$100,000

Farming/higher sales: Operator's primary occupation is farming and gross farm sales \$100,000- \$249,000

Larger family farms

Large: Gross farm sales \$250,000-\$499,999

Very large: Gross farm sales \$500,000 or more

Nonfamily farms

Nonfamily corporations or cooperatives, and farms run by hired managers

Two-thirds of Farms with Contracts Are Small...

	Small family farms					Larger family farms		Nonfamily farms	All farms
	Limited-resource	Retirement	Residential/lifestyle	Farming/lower sales	Farming/higher sales	Large	Very large		
Farms:									
All farms (number)	195,572	304,293	811,752	396,698	178,210	79,240	45,804	37,816	2,049,384
All farms (percent)	9.5	14.8	39.6	19.4	8.7	3.9	2.2	1.8	100.0
Farms with contracts (percent)	2.5	9.0	13.9	20.2	21.4	16.5	12.7	3.8	100.0
Value of production:									
Total (\$ million) ¹	1,615.5	4,378.2	13,126.7	19,971.5	35,249.7	30,230.7	59,582.5	27,569.3	191,724.0
Contract value(\$ million)	137.4	542.9	1,758.3	4,678.6	6,834.6	8,421.3	26,409.1	11,043.2	59,825.5
Production contracts (\$ million)	d	147.2	524.4	943.2	970.7	3,012.6	8,762.3	3,843.8	18,215.7
Marketing contracts (\$ million)	d	395.6	1,233.9	3,735.4	5,863.9	5,408.7	17,646.9	7,199.4	41,608.8
Share of contract value (percent)	0.2	0.9	2.9	7.8	11.4	14.1	44.1	18.5	100.0

... but Larger Farms Are More Likely To Use Contracting

Percent of farm type with:

Production and/or marketing contracts	2.9	6.7	3.9	11.6	27.2	47.2	62.9	23.1	11.1
Production contracts ²	d	0.8	0.7	1.9	4.9	13.3	20.0	2.2	2.2
Marketing contracts ²	d	5.9	3.3	9.8	23.1	36.2	45.8	21.6	9.2
Percent of value of production under contract	8.5	12.4	13.4	23.4	19.4	27.9	44.3	40.1	31.2

1. Survey-based estimates exclude Alaska and Hawaii and do not represent official USDA estimates of farm sector activity. 2. Includes some farms that have both production and marketing contracts.

d - Data insufficient for disclosure.

Source: 1997 Agricultural Resource Management Study, USDA.

Economic Research Service, USDA

Larger family farms were more likely to use contracting than small family farms— 53 percent compared with 8 percent. Larger farms were also more likely than other farms to use production contracts instead of marketing contracts. Larger family farms accounted for 65 percent of the total value of commodities produced under production contract, while nonfamily farms accounted for 21 percent and small family farms for the remaining 14 percent.

Farms with marketing contracts—9 percent of all farms—outnumbered those with production contracts by 4 to 1. While small farms made up almost 70 percent of the farms engaged in marketing through contracts, they accounted for only 27 percent of the total value of production sold under marketing contracts.

Dairy products marketed by small farms under contract were valued at \$6.3 billion, or more than half of the marketing contract value of production on small farms. Small family farms sold \$1.6 billion of fruit and vegetables through marketing

contracts—20 percent of the value of all fruit contract marketings and 5 percent of the value of all vegetable contract marketings. Other crops raised on small farms and marketed through contracts include soybeans, cotton, and corn, but contracted value of these commodities totaled just \$1.4 billion.

Larger family farms sold 70 percent of their total value of dairy products through marketing contracts, as well as 66 percent of their fruit and 38 percent of their cotton. Other crops grown under marketing contract on larger family farms include vegetables, corn, and soybeans. Commodities under marketing contracts on nonfamily farms were predominantly fruits, cattle, and dairy products.

As government programs become more market-oriented, all farm operators will need to continue developing their risk management skills in order to protect their operations from high debt levels and unpredictable price swings. Contracting is likely to be a part of farmers' efforts to reconcile production preferences with expected conditions in the marketplace, locking in purchasers for their products, sharing costs with investors, and ensuring compensation for their labor.

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For more information on family farms**Structural and Financial Characteristics of U.S. Farms, 1995: 20th Annual Family Farm Report to the Congress**

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